

CITY OF PAULLINA, IOWA
Paullina, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended
June 30, 2011

**CITY OF PAULLINA, IOWA
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CITY OF PAULLINA, IOWA

OFFICIALS

(Before January, 2011)

| Name | Title | Term Expires |
|-----------------|--------------------------|---------------------|
| Marlo Ebel | Mayor | January, 2012 |
| Marty Weber | Mayor Pro-Tem | January, 2014 |
| Justin Stamer | Council Member | January, 2014 |
| John Ihle | Council Member | January, 2012 |
| Mike Otto | Council Member | January, 2012 |
| John Muller | Council Member | January, 2014 |
| Sandy Fritz | City Clerk/Administrator | January, 2012 |
| Johnene Altman | Treasurer | January, 2012 |
| Tisha Halverson | Attorney | January, 2012 |

(After January, 2011)

| Name | Title | Term Expires |
|-----------------|--------------------------|---------------------|
| Marlo Ebel | Mayor | January, 2012 |
| Martin Weber | Mayor Pro-Tem | January, 2014 |
| Justin Stamer | Council Member | January, 2014 |
| John Ihle | Council Member | January, 2012 |
| Mike Otto | Council Member | January, 2012 |
| John Muller | Council Member | January, 2014 |
| Sandy Fritz | City Clerk/Administrator | January, 2012 |
| Johnene Altman | Treasurer | January, 2012 |
| Tisha Halverson | Attorney | January, 2012 |



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Paullina, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paullina, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of June 30, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, on our consideration of the City of Paullina, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina, Iowa's financial statements as a whole. The combining nonmajor fund financial statements, and the schedule of receipts by source and disbursements by function, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and the schedule of receipts by source and disbursements by function are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
December 13, 2011

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 6.14%, or approximately \$45,000 from fiscal year 2010 to fiscal 2011. Property tax increased approximately \$16,781 from fiscal year 2010 to fiscal year 2011. Local Option Sales Tax receipts increased by \$30,248 from fiscal year 2010 to fiscal year 2011. Intergovernmental receipts decreased by \$6,347 from fiscal year 2010 to fiscal year 2011.
- Disbursements of the City's governmental activities decreased 22%, or approximately \$224,472 in fiscal 2011 from fiscal 2010. Public works disbursements decreased approximately \$271,410, capital projects increased \$84,296 and public safety disbursements increased by approximately \$26,172..
- The City's total cash basis net assets increased 1.99% or \$50,784 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased by \$54,650 and the assets of the business type activities decreased by \$3,866.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government –wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Government Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, the electric system and telecommunications system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$54,650. The analysis that follows focuses on the changes in cash balances for governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities | | |
|---|---------------------|------------|
| | Year Ended June 30, | |
| | 2011 | 2010 |
| Receipts and Transfers | | |
| Program Receipts: | | |
| Charges for Services | \$ 128,470 | \$ 174,364 |
| Operating Grants & Contributions | 216,357 | 226,719 |
| General Receipts | | |
| Property Taxes | 200,685 | 183,904 |
| Tax Increment Financing Collections | 15,301 | 19,298 |
| Local Option Sales Tax | 108,309 | 78,061 |
| Interest | 4,610 | 5,049 |
| Miscellaneous | 43,712 | 40,299 |
| Proceeds from Debt Financing | 55,264 | --- |
| Sale of Capital Assets | 4,835 | 9,000 |
| Total Receipts | 777,543 | 732,679 |
| Disbursements: | | |
| Public Safety..... | 249,313 | 223,141 |
| Public Works..... | 153,713 | 425,123 |
| Health and Social Services..... | 4,370 | 8,570 |
| Culture and Recreation..... | 80,889 | 84,601 |
| Community and Economic Development..... | --- | 113 |
| General Government..... | 51,074 | 66,382 |
| Debt Service..... | 95,148 | 135,345 |
| Capital Projects..... | 155,754 | 71,458 |
| Total Disbursements | 790,261 | 1,014,733 |
| (Decrease) in Cash Basis Net Assets – Before Transfers | (12,718) | (282,054) |
| Net Transfers | 67,368 | 85,766 |
| Cash Basis Net Assets – Beginning of Year | 763,177 | 959,465 |
| Cash Basis Net Assets – End of Year | \$ 817,827 | \$ 763,177 |

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City's total receipts for governmental activities increased 6.14%, or approximately \$45,000. A significant increase in the Local Option Sales Tax and Property Tax receipts was offset by decreases in Tax Increment Financing, Special Assessments and Sale of Capital Assets.

The City increased property tax rates for fiscal year 2011 an average of 9%. The Council continues to try to attain a lower tax rate due to several increases in the utility rates.

The cost of all governmental activities decreased this year by 22%, to \$790,261 compared to \$1,014,733 last year. The decrease in disbursements is due to an decrease in snow removal costs for the winter, capital improvements and a decrease the amount of debt service.

Changes in Cash Basis Net Assets of Business Type Activities

| | Year Ended June 30, | |
|---|---------------------|--------------|
| | 2011 | 2010 |
| Receipts: | | |
| Operating Receipts: | | |
| Water | \$ 159,116 | \$ 163,513 |
| Electric | 1,131,777 | 1,071,122 |
| Sewer | 147,813 | 151,307 |
| Telecom | 86,172 | 203,592 |
| Interest | 18,707 | 24,123 |
| Proceeds from Debt | 434,850 | --- |
| Total | 1,978,435 | 1,613,657 |
| Disbursements: | | |
| Operating Disbursements: | | |
| Water | 209,633 | 168,291 |
| Electric | 1,418,690 | 852,747 |
| Sewer | 197,728 | 184,569 |
| Telecom | 88,882 | 84,635 |
| Total | 1,914,933 | 1,290,242 |
| Net Change in Cash Balance – Before Transfers | 63,502 | 323,415 |
| Net Transfers Out | (67,368) | (85,766) |
| Cash Basis Net Assets – Beginning of Year | 1,787,305 | 1,549,656 |
| Cash Basis Net Assets – End of Year | \$ 1,783,439 | \$ 1,787,305 |

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$72,431 to \$262,186 due to the purchase of a vehicle, additional meters and a control panel for the water tower.
- The Electric Fund cash balance increased by \$63,916 to \$989,789 due to the addition of a power cost adjustment.
- The Sewer Fund cash balance increased by \$3,390 to \$44,622 due to a decrease in disbursements.
- Telecom Fund cash balance increased by \$1,259 to \$486,842 and continues to be stable.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 5, 2011 and resulted in an increase in budgeted receipts of \$343,049 and an increase in budgeted disbursements of \$387,022. The City had sufficient cash balances to absorb these additional costs. The Electric Revenue Bond Refinance Transaction was not included in the budget amendment because it was originally schedule for July 2011 and was moved up due to changes in interest rates.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2010 to June 30, 2011 follows:

| | Year Ended June 30, | |
|--------------------------------------|---------------------|--------------|
| | 2011 | 2010 |
| G.O. Bonds and Notes | \$ 360,000 | \$ 425,000 |
| Special Assessment Notes..... | 10,000 | 20,000 |
| Sewer Loan Notes..... | 455,000 | 477,000 |
| Electric Revenue Notes..... | 445,000 | 585,000 |
| Telecommunication Revenue Notes..... | 570,020 | 630,000 |
| Total | \$ 1,840,020 | \$ 2,137,000 |

ECONOMIC FACTORS

The City continues with the updating and replacement of aging equipment.

The City continues to work with developers and to sell lots in the business park and plans to continue the development of the business park.

The City will be increasing rates for water usage beginning 07/01/2011 to cover the increasing costs associated with operating the water utility.

The City has been awarded a CDBG Grant in the amount of \$248,000 for sewer collection improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, 127 S. Main St. Paullina, Iowa 51046, (712) 949-3428.

BASIC FINANCIAL STATEMENTS

CITY OF PAULLINA, IOWA

STATEMENT OF ACTIVITIES and NET ASSETS - Cash Basis

For the Year Ended June 30, 2011

| Functions/Programs | Disbursements | Program Receipts | | | |
|---------------------------------|---------------|----------------------|------------------------------------|----------------------------------|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| Public Safety | \$ 249,313 | \$ 19,096 | \$ 4,250 | \$ - | |
| Public Works | 153,713 | 102,217 | 106,485 | - | |
| Health and Social Services | 4,370 | - | - | - | |
| Culture and Recreation | 80,889 | 4,284 | 6,500 | - | |
| General Government | 51,074 | 2,873 | 99,122 | - | |
| Capital Outlay | 155,754 | - | - | - | |
| Debt Service | 95,148 | - | - | - | |
| Total governmental activities | 790,261 | 128,470 | 216,357 | - | |
| Business-Type Activities: | | | | | |
| Water Utility | 209,633 | 159,116 | - | - | |
| Sewer Utility | 197,728 | 147,813 | - | - | |
| Electric Utility | 1,418,690 | 1,131,777 | - | - | |
| Telecom | 88,882 | 86,172 | - | - | |
| Total Business-Type Activities: | 1,914,933 | 1,524,878 | - | - | |
| Total Primary Government | \$ 2,705,194 | \$ 1,653,348 | \$ 216,357 | \$ - | |

General Receipts:

Property taxes

Tax Increment Financing

Local Option Sales Tax

Interest

Sale of Assets

Miscellaneous

Proceeds from Financing

Interfund Transfers

 Total general receipts and transfers

Change in net assets

Cash Basis Net assets - beginning

Cash Basis Net assets - ending

Cash Basis Net Assets

Restricted:

Streets

Urban Renewal Purpose

Debt Service

Capital Projects

Employee Benefits

Unrestricted

 Total Cash Basis Net Assets

Exhibit A

| Net (Disbursements) Receipts and Changes in Net Assets | | |
|---|-----------------------------|---------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (225,967) | | \$ (225,967) |
| 54,989 | | 54,989 |
| (4,370) | | (4,370) |
| (70,105) | | (70,105) |
| 50,921 | | 50,921 |
| (155,754) | | (155,754) |
| (95,148) | | (95,148) |
| <u>(445,434)</u> | | <u>(445,434)</u> |
| | \$ (50,517) | (50,517) |
| | (49,915) | (49,915) |
| | (286,913) | (286,913) |
| | (2,710) | (2,710) |
| | <u>(390,055)</u> | <u>(390,055)</u> |
| <u>(445,434)</u> | <u>(390,055)</u> | <u>(835,489)</u> |
| 200,685 | - | 200,685 |
| 15,301 | - | 15,301 |
| 108,309 | - | 108,309 |
| 4,610 | 18,707 | 23,317 |
| 4,835 | - | 4,835 |
| 43,712 | - | 43,712 |
| 55,264 | 434,850 | 490,114 |
| 67,368 | (67,368) | - |
| <u>500,084</u> | <u>386,189</u> | <u>886,273</u> |
| 54,650 | (3,866) | 50,784 |
| 763,177 | 1,787,305 | 2,550,482 |
| <u>\$ 817,827</u> | <u>\$ 1,783,439</u> | <u>\$ 2,601,266</u> |
| \$ 165,239 | \$ - | \$ 165,239 |
| 207,949 | - | 207,949 |
| 216,022 | 197,539 | 413,561 |
| 3,731 | - | 3,731 |
| 44,737 | - | 44,737 |
| 180,149 | 1,585,900 | 1,766,049 |
| <u>\$ 817,827</u> | <u>\$ 1,783,439</u> | <u>\$ 2,601,266</u> |

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
For the Year Ended June 30, 2011

| | General | Special Revenue | | Capital Project |
|--|------------|-----------------|-----------------------------|-----------------|
| | | Road Use Tax | Urban Renewal Tax Increment | Business Park |
| Receipts: | | | | |
| Taxes | \$ 195,599 | \$ - | \$ - | \$ - |
| Special Assessments | - | - | - | - |
| Licenses and Permits | 2,873 | - | - | - |
| Intergovernmental | 10,750 | 106,485 | - | - |
| Charges for Services | 94,379 | - | - | - |
| TIF Revenue | - | - | 15,301 | - |
| Local Option Sales Tax | - | - | - | - |
| Rental of City Property | 21,108 | - | - | - |
| Interest on Investments | 1,784 | - | 124 | 1,023 |
| Miscellaneous | 41,684 | - | - | - |
| Total Receipts | 368,177 | 106,485 | 15,425 | 1,023 |
| Disbursements: | | | | |
| Public Safety | 218,555 | - | - | - |
| Public Works | 129,567 | 23,993 | - | - |
| Health and Social Services | 4,370 | - | - | - |
| Culture and Recreation | 76,629 | - | - | - |
| General Government | 49,891 | - | - | - |
| Capital Outlay | - | - | - | 1,817 |
| Debt Service: | | | | |
| Principal Retirement | - | - | - | - |
| Interest | - | - | - | - |
| Total Disbursements | 479,012 | 23,993 | - | 1,817 |
| Excess (Deficiency) of Receipts to Disbursements | (110,835) | 82,492 | 15,425 | (794) |
| Other financing sources (uses): | | | | |
| Proceeds from Debt Financing | - | - | - | - |
| Sale of Assets | 4,835 | - | - | - |
| Transfers In | 105,825 | - | - | - |
| Transfers Out | (10,528) | - | (18,460) | - |
| Total other financing sources | 100,132 | - | (18,460) | - |
| Net Change in Cash Balances | (10,703) | 82,492 | (3,035) | (794) |
| Cash Balances Beginning of Year | 190,852 | 73,645 | 17,053 | 194,725 |
| Cash Balances End of Year | \$ 180,149 | \$ 156,137 | \$ 14,018 | \$ 193,931 |
| Cash Basis Fund Balances: | | | | |
| Restricted for: | | | | |
| Debt Service | - | - | - | - |
| Economic Development | - | - | 14,018 | - |
| Streets | - | 156,137 | - | - |
| Employee Benefits | - | - | - | - |
| Assigned to: | | | | |
| Capital Improvements | - | - | - | 193,931 |
| Unassigned: | 180,149 | - | - | - |
| | 180,149 | 156,137 | 14,018 | 193,931 |

See Accompanying Notes to Financial Statements

Exhibit B

| Debt Service | Other Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------|---|--------------------------------|
| | \$ 5,086 | \$ 200,685 |
| 1,039 | 9,071 | 10,110 |
| - | - | 2,873 |
| - | 99,122 | 216,357 |
| - | - | 94,379 |
| - | - | 15,301 |
| - | 108,309 | 108,309 |
| - | - | 21,108 |
| 1,452 | 227 | 4,610 |
| - | 2,028 | 43,712 |
| 2,491 | 223,843 | 717,444 |
| - | 30,758 | 249,313 |
| - | 153 | 153,713 |
| - | - | 4,370 |
| - | 4,260 | 80,889 |
| - | 1,183 | 51,074 |
| - | 153,937 | 155,754 |
| 75,000 | - | 75,000 |
| 20,148 | - | 20,148 |
| 95,148 | 190,291 | 790,261 |
| (92,657) | 33,552 | (72,817) |
| - | 55,264 | 55,264 |
| - | - | 4,835 |
| 60,700 | 64,237 | 230,762 |
| (18,333) | (116,073) | (163,394) |
| 42,367 | 3,428 | 127,467 |
| (50,290) | 36,980 | 54,650 |
| 266,312 | 20,590 | 763,177 |
| \$ 216,022 | \$ 57,570 | \$ 817,827 |
| 216,022 | - | 216,022 |
| - | - | 14,018 |
| - | 9,102 | 165,239 |
| - | 44,737 | 44,737 |
| - | 3,731 | 197,662 |
| - | - | 180,149 |
| 216,022 | 57,570 | 817,827 |

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
For the Year Ended June 30, 2011

| | Water Utility |
|---|--------------------------|
| Operating Receipts: | |
| Charges for Services | \$ 159,116 |
| Total Operating Receipts | <u>159,116</u> |
| Operating Disbursements: | |
| Purchased Power | - |
| Employee Services | 91,572 |
| Distribution / Collection | 13,052 |
| Supplies | 32,327 |
| Repairs | 5,498 |
| Capital Outlay | 44,950 |
| Administrative and General | 22,234 |
| Total Operating Disbursements | <u>209,633</u> |
| Excess (Deficiency) of Receipts Over Disbursements | (50,517) |
| Non-Operating Receipts (Disbursements): | |
| Interest Income | 4,419 |
| Proceeds from Refunding Bonds | - |
| Interest Expense | - |
| Principal Payments | - |
| Total Non-Operating Receipts (Disbursements) | <u>4,419</u> |
| Excess (Deficiency) of Receipts Over Disbursements | (46,098) |
| Transfers In | - |
| Transfers Out | <u>(26,333)</u> |
| Change in Cash Balances | (72,431) |
| Cash Basis Net Assets Beginning of Year | <u>334,617</u> |
| Cash Basis Net Assets End of Year | <u><u>262,186</u></u> |
| Cash Basis Net Assets | |
| Reserved for Debt Service | - |
| Unreserved | 262,186 |
| Total Cash Basis Net Assets | <u><u>\$ 262,186</u></u> |

See Accompanying Notes to Financial Statements

Exhibit C

| Business Type Activities | | | |
|--------------------------|------------------|------------|--------------|
| Electric Utility | Sewer Utility | Telecom | Total |
| \$ 1,131,777 | \$ 147,813 | \$ 86,172 | \$ 1,524,878 |
| 1,131,777 | 147,813 | 86,172 | 1,524,878 |
| 441,539 | - | - | 441,539 |
| 199,622 | 100,811 | - | 392,005 |
| 7,664 | 20,133 | - | 40,849 |
| 49,896 | 10,044 | - | 92,267 |
| 16,078 | 9,142 | 1,095 | 31,813 |
| 13,000 | 4,833 | - | 62,783 |
| 62,998 | 15,262 | - | 100,494 |
| 790,797 | 160,225 | 1,095 | 1,161,750 |
| 340,980 | (12,412) | 85,077 | 363,128 |
| 10,082 | 237 | 3,969 | 18,707 |
| 434,850 | - | - | 434,850 |
| (42,893) | (15,503) | (27,807) | (86,203) |
| (585,000) | (22,000) | (59,980) | (666,980) |
| (182,961) | (37,266) | (83,818) | (299,626) |
| 158,019 | (49,678) | 1,259 | 63,502 |
| 700 | 54,068 | - | 54,768 |
| (94,803) | (1,000) | - | (122,136) |
| 63,916 | 3,390 | 1,259 | (3,866) |
| 925,873 | 41,232 | 485,583 | 1,787,305 |
| 989,789 | 44,622 | 486,842 | 1,783,439 |
| 100,099 | - | 97,440 | 197,539 |
| 889,690 | 44,622 | 389,402 | 1,585,900 |
| \$ 989,789 | \$ 44,622 | \$ 486,842 | \$ 1,783,439 |

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable TV, for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expandable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Business Park fund is utilized by the City to work with its developers to attract new businesses to the Paullina area and to continue to develop the City's Business Park.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the cable television system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2011 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30 2011; however the City's time deposits were as follows:

| | |
|-------------------------|------------------|
| Certificates of Deposit | <u>\$423,996</u> |
|-------------------------|------------------|

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit Risk – The City's investment in the Iowa public Agency Investment Trust is unrated.

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2011, is \$1,881,478 of which \$370,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2011:

| | Governmental Activities | Business-Type Activities |
|---------------------------------------|---|---|
| | Bonds and Notes Payable by Debt Service Fund | Bonds and Notes Paid by Enterprise Funds |
| Primary Government | | |
| Bonds and notes payable July 1, 2010 | \$ 445,000 | \$ 1,692,000 |
| Plus: bonds and notes issued | - | 445,000 |
| Less: payments | (75,000) | (666,980) |
| Bonds and notes payable June 30, 2011 | <u>\$ 370,000</u> | <u>\$ 1,470,020</u> |
| Due within one year | <u>\$ 75,000</u> | <u>\$ 188,000</u> |

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

The City of Paullina had the following outstanding bonds as of June 30, 2011:

| Bond | Date of Issue | Interest Rate | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding June 30, 2011 |
|--------------------|---------------|---------------|----------------|-----------------------|--------------------------|---------------------------|
| General Obligation | 06/01/02 | 3.60 – 5.20% | 2013 | \$10,000 - \$15,000 | \$ 135,000 | \$ 30,000 |
| Business Park | 09/14/06 | 3.80 – 4.25% | 2017 | \$45,000 - \$60,000 | 515,000 | 330,000 |
| S.A. Capital Loan | 06/20/02 | 3.75% - 5.60% | 2012 | \$ 3,000 - \$10,000 | 93,000 | 10,000 |
| Telecom | 04/22/04 | 1.80% - 4.80% | 2019 | \$50,000 - \$85,000 | 950,000 | 570,020 |
| Electric | 06/15/11 | 1.00% - 2.10% | 2016 | \$105,000 - \$120,000 | 445,000 | 445,000 |
| Sewer Relining | 12/01/07 | 3.00% | 2027 | \$21,000 - \$35,000 | 520,000 | 455,000 |
| Total Bonds Due | | | | | <u>\$ 2,658,000</u> | <u>\$ 1,840,020</u> |

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

| Year Ending June 30 | General Obligation Bonds and Notes | | Special Assessment Capital Loan | | Business Park Capital Loan Note | | Total Governmental | |
|---------------------|------------------------------------|----------|---------------------------------|----------|---------------------------------|-----------|--------------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 15,000 | \$ 1,545 | \$ 10,000 | \$ 560 | \$ 50,000 | \$ 13,498 | \$ 75,000 | \$ 15,603 |
| 2013 | 15,000 | 780 | - | - | 50,000 | 11,523 | 65,000 | 12,303 |
| 2014 | - | - | - | - | 55,000 | 9,523 | 55,000 | 9,523 |
| 2015 | - | - | - | - | 55,000 | 7,295 | 55,000 | 7,295 |
| 2016 | - | - | - | - | 60,000 | 5,040 | 60,000 | 5,040 |
| 2017 – 2020 | - | - | - | - | 60,000 | 2,550 | 60,000 | 2,550 |
| Total | \$ 30,000 | \$ 2,325 | \$ 10,000 | \$ 560 | \$330,000 | \$ 49,429 | \$370,000 | \$ 52,314 |

| Year Ending June 30 | Telecommunications Revenue Capital Loan Notes Issued 4-1-04 | | Electric Revenue Capital Loan Issued 6-15-11 | | Sewer Relining Project Revenue Capital Loan Issued 8-30-07 | | Total Business Type | |
|---------------------|---|------------|--|-----------|--|------------|---------------------|------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 60,000 | \$ 25,117 | \$ 105,000 | \$ 4,300 | \$ 23,000 | \$ 13,650 | \$ 188,000 | \$ 43,067 |
| 2013 | 65,000 | 22,778 | 110,000 | 5,800 | 23,000 | 12,960 | 198,000 | 41,538 |
| 2014 | 65,000 | 20,145 | 115,000 | 4,370 | 24,000 | 12,270 | 204,000 | 36,785 |
| 2015 | 70,000 | 17,415 | 115,000 | 2,415 | 25,000 | 11,550 | 210,000 | 31,380 |
| 2016 | 70,000 | 14,405 | - | - | 25,000 | 10,800 | 95,000 | 25,205 |
| 2017 – 2021 | 240,020 | 23,210 | - | - | 140,000 | 42,150 | 380,020 | 65,360 |
| 2022 – 2026 | - | - | - | - | 160,000 | 19,950 | 160,000 | 19,950 |
| 2027 – 2031 | - | - | - | - | 35,000 | 1,050 | 35,000 | 1,050 |
| Total | \$ 570,020 | \$ 123,070 | \$ 445,000 | \$ 16,885 | \$ 455,000 | \$ 124,380 | \$ 1,470,020 | \$ 264,335 |

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrues interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

In January 2011, the City was authorized for \$597,000 of bond anticipation notes to finance the planning and repairs and maintenance to the City's sewer system. During the fiscal year \$55,264 had been received to cover the costs of initial engineering fees for the project. The project is expected to begin in April 2012 with an expected completion date in June 2012. Upon completion of the project a note and interest rate will be assigned and a payment schedule set up.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

In June 2011, the City issued \$445,000 of Revenue Bonds, which is a current refunding of the 2001 Electric Revenue Bond. The new bond has an outstanding balance of \$445,000 as of June 30, 2011. The 2011 bond carries an average interest rate of 1.53% over four years. As a result the City will reduce its interest payments on the Electric Revenue Bond over the next four years to \$16,885, resulting in an economic gain of \$41,110 over four years.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

The City's payroll for employees covered by the System for the year ended June 30, 2011 was \$368,181. The total City payroll for the fiscal year was \$390,818. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$28,048, \$27,558, and \$17,533 respectively, equal to the required contributions for each year.

NOTE 5 – RISK MANAGEMENT

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------|---------------------|----------------------|
| General | \$ 105,825 | \$ 10,528 |
| Debt Service | 60,700 | 18,333 |
| FEMA | - | 7,759 |
| Employee Benefits | 55,237 | - |
| Housing Rehab CDBG | 9,000 | - |
| Road Use Tax | - | - |
| Urban Renewal – TIF | - | 18,460 |
| Local Option Sales Tax | - | 108,314 |
| Water | - | 26,333 |
| Electric | 700 | 94,803 |
| Sewer | 54,068 | 1,000 |
| | <u>\$ 285,530</u> | <u>\$ 285,530</u> |

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2011

| | Budgeted Amount | | Actual | Variance with Final Budget Positive (Negative) |
|--|-----------------|--------------|--------------|---|
| | Original | Final | | |
| Receipts: | | | | |
| Taxes | \$ 199,539 | \$ 199,539 | \$ 200,685 | \$ 1,146 |
| Special Assessments | 2,250 | 11,341 | 10,110 | (1,231) |
| Licenses and Permits | 2,330 | 2,330 | 2,873 | 543 |
| Intergovernmental | 110,846 | 308,546 | 216,357 | (92,189) |
| Charges for Services | 1,550,310 | 1,550,310 | 1,619,256 | 68,946 |
| TIF Revenue | 15,244 | 15,244 | 15,301 | 57 |
| Local Option Sales Tax | 87,171 | 87,171 | 108,309 | 21,138 |
| Rental of City Property | 18,200 | 18,200 | 21,108 | 2,908 |
| Interest | 45,470 | 45,470 | 23,318 | (22,152) |
| Miscellaneous | 11,850 | 11,850 | 48,547 | 36,697 |
| Total Receipts | 2,043,210 | 2,250,001 | 2,265,864 | 15,863 |
| Disbursements | | | | |
| Public Safety | 238,883 | 266,301 | 249,313 | 16,988 |
| Public Works | 193,997 | 193,997 | 153,713 | 40,284 |
| Health and Social Services | 4,370 | 4,470 | 4,370 | 100 |
| Culture and Recreation | 119,627 | 119,627 | 80,889 | 38,738 |
| Community and Economic Development | 2,000 | 2,000 | - | 2,000 |
| General Government | 75,239 | 75,239 | 51,074 | 24,165 |
| Capital Projects | 500 | 271,701 | 155,754 | 115,947 |
| Principal Retirement | 75,000 | 75,000 | 75,000 | - |
| Interest | 20,048 | 20,248 | 20,148 | 100 |
| Business Type / Enterprises | 1,551,902 | 1,566,872 | 1,914,933 | (348,061) |
| Total Disbursements | 2,281,566 | 2,595,455 | 2,705,194 | (109,739) |
| Excess (deficiency) of receipts over disbursements | (238,356) | (345,454) | (439,330) | (93,876) |
| Other financing sources (uses): | | | | |
| Proceeds from Debt Financing | - | 63,125 | 490,114 | 426,989 |
| Transfers In | 249,786 | 322,919 | 285,530 | (37,389) |
| Transfers (Out) | (249,786) | (322,919) | (285,530) | 37,389 |
| Total other financing sources (uses) | - | 63,125 | 490,114 | 426,989 |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (238,356) | (282,329) | 50,784 | 333,113 |
| Balances Beginning of Year | 2,550,482 | 2,550,482 | 2,550,482 | - |
| Balances End of Year | \$ 2,312,126 | \$ 2,268,153 | \$ 2,601,266 | \$ 333,113 |

See accompanying independent auditor's report

CITY OF PAULLINA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annual adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the adopted budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$387,022. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Governmental Nonmajor Funds
For the Year Ended June 30, 2011

| | Special Revenue Funds | | | Capital Project Funds | |
|--|-----------------------|------------------------|---------|-----------------------|---------------------|
| | Employee Benefits | Local Option Sales Tax | FEMA | North Mickley Street | Sewer Rehab Project |
| Receipts: | | | | | |
| Taxes | \$ 5,086 | \$ - | \$ - | \$ - | \$ - |
| Special Assessments | - | - | - | 9,071 | - |
| Intergovernmental | - | - | 7,756 | - | 721 |
| Local Option Sales Tax | - | 108,309 | - | - | - |
| Interest on Investments | 178 | 5 | 3 | 31 | 3 |
| Miscellaneous | - | - | - | - | - |
| Total Receipts | 5,264 | 108,314 | 7,759 | 9,102 | 724 |
| Disbursements: | | | | | |
| Public Safety | 30,758 | - | - | - | - |
| Public Works | 153 | - | - | - | - |
| Culture and Recreation | 4,260 | - | - | - | - |
| General Government | 1,183 | - | - | - | - |
| Capital Outlay | - | - | - | - | 55,264 |
| Total Disbursements | 36,354 | - | - | - | 55,264 |
| Excess (Deficiency) of Receipts over Disbursements | (31,090) | 108,314 | 7,759 | 9,102 | (54,540) |
| Other financing sources (uses): | | | | | |
| Proceeds from Debt Financing | - | - | - | - | 55,264 |
| Transfers In | 55,237 | - | - | - | - |
| Transfers Out | - | (108,314) | (7,759) | - | - |
| Total other financing sources | 55,237 | (108,314) | (7,759) | - | 55,264 |
| Net Change in Cash Balances | 24,147 | - | - | 9,102 | 724 |
| Cash Balances Beginning of Year | 20,590 | - | - | - | - |
| Cash Balances End of Year | \$ 44,737 | \$ - | \$ - | \$ 9,102 | \$ 724 |
| Cash Basis Fund Balances: | | | | | |
| Restricted For: | | | | | |
| Employee Benefits | 44,737 | - | - | - | - |
| Assigned To: | | | | | |
| Capital Improvements | | | | 9,102 | 724 |
| | 44,737 | - | - | 9,102 | 724 |

See accompanying independent auditor's report

Schedule 1

| Capital Project Fund | Total Governmental Nonmajor Funds |
|--------------------------|--|
| CDBG Housing Rehab | |
| \$ - | \$ 5,086 |
| - | 9,071 |
| 90,645 | 99,122 |
| - | 108,309 |
| 7 | 227 |
| 2,028 | 2,028 |
| 92,680 | 223,843 |
| - | 30,758 |
| - | 153 |
| - | 4,260 |
| - | 1,183 |
| 98,673 | 153,937 |
| 98,673 | 190,291 |
| (5,993) | 33,552 |
| - | 55,264 |
| 9,000 | 64,237 |
| - | (116,073) |
| 9,000 | 3,428 |
| 3,007 | 36,980 |
| - | 20,590 |
| \$ 3,007 | \$ 57,570 |
| - | 44,737 |
| 3,007 | 12,833 |
| 3,007 | 57,570 |

CITY OF PAULLINA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Four Years Ended
June 30, 2011

Schedule 2

| | 2011 | 2010 | 2009 | 2008 |
|------------------------------------|------------|--------------|------------|------------|
| Receipts: | | | | |
| Property tax | \$ 200,685 | \$ 183,904 | \$ 226,651 | \$ 264,050 |
| Tax increment financing revenue | 15,301 | 19,298 | 20,811 | 19,510 |
| Local Option Sales Tax | 108,309 | 78,061 | 127,387 | 106,021 |
| Licenses and permits | 2,873 | 2,915 | 2,300 | 3,086 |
| Use of money and property | 25,718 | 51,543 | 43,765 | 60,113 |
| Intergovernmental | 216,357 | 222,704 | 106,383 | 107,496 |
| Charges for service | 94,379 | 104,812 | 106,737 | 172,818 |
| Special Assessments | 10,110 | 20,143 | 23,977 | 24,963 |
| Miscellaneous | 43,712 | 40,299 | 103,240 | 26,799 |
| Proceeds from Debt Financing | 55,264 | - | - | - |
| Sale of Capital Assets | 4,835 | 9,000 | 835 | 15,250 |
| Total | 777,543 | 732,679 | 762,086 | 800,106 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 249,313 | 223,141 | 288,822 | 180,252 |
| Public works | 153,713 | 425,123 | 256,664 | 220,047 |
| Health and Social Services | 4,370 | 8,570 | 4,150 | 4,000 |
| Culture and recreation | 80,889 | 84,601 | 84,288 | 96,023 |
| Community and economic development | - | 113 | 1,993 | 1,272 |
| General government | 51,074 | 66,382 | 63,631 | 68,786 |
| Debt service | 95,148 | 135,345 | 140,150 | 144,890 |
| Capital projects | 155,754 | 71,458 | 7,811 | 10,665 |
| Total | \$ 790,261 | \$ 1,014,733 | \$ 847,509 | \$ 725,935 |

See accompanying independent auditor's report



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of the City Council
City of Paullina, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paullina, as of and for the year ended June 30, 2011, which collectively comprise the City of Paullina's basic financial statements listed in the table of contents and have issued our report thereon dated December 13, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Paullina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Paullina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Paullina's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items II-A-11, II-B-11 and II-C-11 to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Paullina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be

reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Paullina's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties the City of Paullina may report. This report is not intended to be used and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Paullina, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Certified Public Accountants

Le Mars, Iowa
December 13, 2011

**CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Part I – Summary of the Independent Auditor’s Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-11 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City Clerk is involved in almost all phases of the finance operations, including cash receipts listing, bank deposits, check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – With a limited number of personnel, segregation of duties is difficult. However, the City should review its internal control to obtain the maximum internal control possible under the circumstances.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-11 Financial Reporting

Observation – During the audit, we identified one transfer made to the Library that was recorded in the general ledger as Materials and Supplies Expense. We also identified one transfer made to the Employee Benefit Fund that was recorded in the general ledger as a transfer to the Electric Fund.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash disbursements are properly identified and recorded in the financial statements.

Response – The City will double check disbursements in the future to ensure that they are properly recorded in the financial statements.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Part II – Findings Related to the Financial Statements (Continued):

Conclusion – Response accepted.

II-C-11 Financial Reporting

Observation – During the audit, we identified income in the Telecom Fund that was recorded as interest income rather than sale of signal income. We also identified three instances in the Electric Fund and one instance in the Water Fund where interest income was not properly recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash receipts are properly identified and recorded in the financial statements.

Response – The City will double check receipts and transfers in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted

Part III – Other Findings Related to Statutory Reporting

III-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-11 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-11 Business Transactions – There were no business transactions between the City and City officials or employees noted.

III-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Part III – Other Findings Related to Statutory Reporting (Continued)

III-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-11 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-H-11 Revenue Notes – The City was in compliance with the requirements of its revenue notes.

III-I-11 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-11 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$216,022, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at the current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.

III-K-11 Depository Resolution – The City's bank accounts in their local banking institution exceeded their depository resolution amount as set by the City Council in their meeting minutes.

Recommendation – The City should increase its depository resolution limit to accommodate the balances on hand.

Response – The City will add this item to the next City Council meeting agenda to be increased as necessary and the balance will be monitored in the future.

Conclusion – Response accepted.